



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA

Herman A. Bertulotti

ALCONA COMMUNITY SCHOOLS
ALCONA COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED JUNE 30, 2008

AUDITORS' REPORT

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 9
<u>BASIC FINANCIAL STATEMENTS</u>	
<u>GOVERNMENT-WIDE FINANCIAL STATEMENTS</u>	
STATEMENT OF NET ASSETS	10
STATEMENT OF ACTIVITIES	11
<u>FUND FINANCIAL STATEMENTS</u>	
BALANCE SHEET - GOVERNMENTAL FUNDS	12
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES	13
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	14
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	15
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - TRUST AND AGENCY FUNDS	16
NOTES TO FINANCIAL STATEMENTS	17 - 31
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND	32
<u>OTHER INFORMATION</u>	
<u>COMBINING STATEMENTS - NONMAJOR FUNDS</u>	
COMBINING BALANCE SHEET - OTHER GOVERNMENTAL FUNDS	33
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - OTHER GOVERNMENTAL FUNDS	34
<u>INDIVIDUAL FUND SCHEDULES</u>	
GENERAL FUND - DETAILS OF REVENUE COMPARED TO BUDGET	35
GENERAL FUND - DETAILS OF EXPENDITURES COMPARED TO BUDGET	36 - 39
<u>FEDERAL FINANCIAL REPORTS</u>	
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	40 - 41
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	42 - 43
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	44
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	45 - 46

I_N_D_E_X (CONTINUED)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

47 - 49

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

50



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brauman, CPA
Kyle E. Trovet, CPA

Herman A. Bertuleit

October 23, 2008

Independent Auditors' Report

Board of Education
Alcona Community Schools
Alcona County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alcona Community Schools, Alcona County, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements, as listed in the index. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Alcona Community Schools as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2008, on our consideration of Alcona Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education
Alcona Community Schools
October 23, 2008
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Alcona Community Schools' basic financial statements. The combining nonmajor funds and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Alcona Community Schools. The combining nonmajor funds and individual fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Grunick & Co., P.C.

ALCONA COMMUNITY SCHOOLS

SHAWN THORNTON
SUPERINTENDENT

P.O. BOX 249
LINCOLN, MICHIGAN 48742

PH (989)-736-6212
FAX (989)- 736-6261

MANAGEMENT'S DISCUSSION AND ANALYSIS **For the Fiscal Year Ended June 30, 2008**

As management of the Alcona Community Schools, (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the School District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all of the District's revenues and expenditures by program for the Instruction, Support Services, Debt Service, Athletics and Food Services.

FINANCIAL HIGHLIGHTS

Our financial statements provide these insights into the results of this year's operations. The overall condition of the funds and governmental activities decreased during the 2007-2008 school year. The General Operating Fund Balance decreased \$293,711. Local tax revenues and taxable values remain strong and account for over 57% of total revenues to the General Fund. State and Federal resources are flat and remain a concern as the economy is expected to recover very slowly and affect state aid and federal payments. These economic conditions and increased costs associated with insurances, retirement, wages and benefits will put our fund equity at risk in coming years. Every effort will be made to control costs and increase revenues in the upcoming school year.

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$5,751,564 (net assets). Of this amount, \$629,821 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students and creditors.

The District's total net assets increased by \$12,289. This represents the degree to which increases in ongoing revenues have surpassed similar increases in ongoing expenses.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,694,292, a decrease of \$273,156 in comparison with the prior year. Of this amount, \$1,260,257 is available for spending at the District's discretion (unreserved fund balance). This represents 12% of the total expenditures of these funds.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Alcona Community Schools basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Alcona Community School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include instruction, support services, athletic service, and food service. The District does not currently have any business-type activities.

The government-wide financial statements can be found in the Statement of Net Assets and the Statement of Activities.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. The District does not currently have any proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the General Fund and 1999 Bond Fund which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts annual appropriated budgets for its governmental funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with budgets.

The basic governmental fund financial statements can be found in the Balance Sheet – Governmental Funds and the Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statement can be found in the Statement of Fiduciary Assets and Liabilities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the District's major funds. Required supplementary information can be found in the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found in the Combining Balance Sheet – Other Governmental Funds and the Combining Statement of Revenue, Expenditures and Changes in Fund Balances – Other Governmental Funds.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplementary Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's net assets were \$5,751,564 at June 30, 2008. Of this amount, \$629,821 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the District's governmental activities.

TABLE 1
NET ASSETS

	<u>Governmental Activities</u>	
	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
Current Assets	\$ 2,674,384	\$ 2,892,475
Noncurrent Assets:		
Bond Issuance Costs – Net	57,172	65,340
Capital Assets - Net	<u>9,441,346</u>	<u>9,675,224</u>
Total Assets	<u>12,172,902</u>	<u>12,633,039</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008

TABLE 1
NET ASSETS

	Governmental Activities	
	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
Current Liabilities	\$ 991,294	\$ 905,232
Noncurrent Liabilities	<u>5,430,044</u>	<u>5,988,532</u>
Total Liabilities	<u>6,421,338</u>	<u>6,893,764</u>
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	4,766,021	4,501,614
Restricted	355,722	335,167
Unrestricted	<u>629,821</u>	<u>902,494</u>
Total Net Assets	<u>\$ 5,751,564</u>	<u>\$ 5,739,275</u>

The \$629,821 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities (compensated absences for example), we would have \$629,821 left.

The District's net assets were \$5,751,564 at June 30, 2008. Capital assets, net of debt totaled \$4,766,021. The debt of the District will be paid for by voter approved bond and property tax collected as the debt service comes due. Day-to-day operations will be paid for by property tax, state aid and federal revenues that will be received throughout the year. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$629,821 is unrestricted.

TABLE 2
CHANGES IN NET ASSETS

	Governmental Activities	
	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
Revenue:		
Program Revenue:		
Charges for Services	\$ 307,950	\$ 317,334
Operating Grants and Contributions	1,422,933	1,667,534
Capital Grants and Contributions	0	6,071
General Revenue:		
Current Property Taxes	5,659,568	5,509,577
State School Aid – Unrestricted	2,263,914	2,413,630
Investment Earnings	117,711	137,011
Miscellaneous	<u>92,410</u>	<u>98,056</u>
Total Revenue	<u>9,864,486</u>	<u>10,149,213</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008

TABLE 2
CHANGES IN NET ASSETS

	Governmental Activities	
	<u>Year Ended June 30, 2008</u>	<u>Year Ended June 30, 2007</u>
Functions/Program Expenses:		
Instruction	\$ 5,945,430	\$ 5,709,088
Supporting Services	2,933,151	3,048,515
Food Services	539,265	528,106
Athletics	154,285	151,717
Transfer to Other Districts	3,425	3,765
Interest on Long-Term Debt	<u>276,641</u>	<u>282,874</u>
Total Functions/Program Expenses	<u>9,852,197</u>	<u>9,724,065</u>
Change in Net Assets	12,289	425,148
Beginning Net Assets	<u>5,739,275</u>	<u>5,314,127</u>
Ending Net Assets	<u>\$ 5,751,564</u>	<u>\$ 5,739,275</u>

Governmental activities increased the District's net assets by \$12,289.

As reported in our Statement of Activities, the cost of all of our governmental activities this year was \$9,852,197. However, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$5,659,568 because some of the cost was paid by those who benefited from the programs (\$307,950), other governments and organizations who subsidized certain programs with grants and contributions (\$1,422,933), unrestricted state aid (2,263,914), and miscellaneous sources (\$210,121).

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended June 30, 2008, the District amended the budgets of this major governmental fund a couple of times, none significantly.

General Fund

The General Fund actual revenue was \$8,669,262. That amount is above the original budget estimates of \$8,289,770 and below the final amended budget of \$8,804,908 by the amount of \$135,646. The variance between the actual revenues, the original budget, and the final budget was the result of increased revenues from various sources along with auditing adjustments at year-end. The original budget is computed in July with limited information concerning State, Federal, and local funding. A very conservative student count is used to compute the budget and this computation results in 80% of the entire operating budget for the District. This student count is adjusted during the 2nd quarter budget adjustment using the actual Fall student count and 3-year averaging. This average along with the State's per-pupil state aid results in the actual foundation revenue that the District receives from two sources – the non-homestead property taxes and the state aid from the State Aid Fund.

The actual expenditures of the General Fund were \$8,711,206 which is above the original budget estimates of \$8,513,017 and below the final amended budget of \$8,965,572 by the amount of \$254,366. The variance between the actual expenditures, the original budget, and the final budget was the result of changes in various expenditures.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008

Variances between the actual revenues and expenses, the original budget, and the final budgets are the result of increases or decreases to the operating position of the District and are a part of the quarterly budget updates supplied to the Board in an ever-changing environment of school finances.

TOTAL REVENUES

The total revenues of the District were \$9,864,486. Of the total revenues, 100% were generated by governmental activities.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$1,730,883 or 18% of total revenues of \$9,864,486.

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$10,150,122. The governmental funds had a net loss in fund balance of \$273,156. The ending fund balance for all governmental funds was \$1,694,292 which represents 17% of current year expenditures. The ending fund balance percentage for the prior year represented 20% of last year's expenditures. This fund balance will be used to cover unforeseen expenditures and hedge for future state aid foundation reductions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2008, the District had \$14,876,112 invested in land and buildings, furniture and equipment, vehicles and buses. Of this amount, \$5,434,766 in depreciation has been taken over the years. We currently have net book value of \$9,441,346. Total additions for the year were \$96,315.

Long-Term Debt

At June 30, 2008, the District had \$4,900,000 in bonds outstanding.

State statutes limit the amount of general obligation debt that a school district may issue. The current debt limitation for the District is significantly greater than the outstanding debt of the District.

Additional information on the District's long-term debt can be found in Note 6 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy of the State of Michigan still lags behind the national economy in tax base because of a very poor manufacturing sector. The legislature has addressed the issue with new business taxes, increased payroll taxes, and a services tax to generate much needed revenues to support services and schools. The State will slowly see this revenue influx in the next year but still is struggling with school funding. The per-pupil foundation was increased approximately 1.54% for the 2008-09 school year with an additional equity payment for districts to cut the gap between 'wealthy' vs. 'poor' schools. Alcona will see a \$111 per-pupil increase in our foundation of which \$100 has been budgeted into the 08/09 budget which will equate to an additional \$61,700 budget increase in budget revenue. The original budget presented in June '08 was calculated with a \$100 increase in foundation with an estimate of 990 students. Our Fall count was 980 students which in the 3-year average formula will equate to 997. As noticed Alcona is experiencing a declining enrollment situation which greatly impacts the revenues the district has to operate. Last school year we had a 3-year average of 1022, this year will be 997 or a loss of 24 students or \$184,000 in revenue. We are very mindful of the enrollment situation and take its impact into the budget calculations.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2008

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Alcona Community School's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Alan Shillair
Business Manager
Alcona Community Schools
51 North Barlow Road
PO Box 249
Lincoln, MI 48742
Office Telephone (989) 736-6212

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

STATEMENT OF NET ASSETS
June 30, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 2)	\$ 1,971,330
Receivables:	
Taxes	7,315
Accounts	4,169
Due from Other Governmental Units	562,282
Inventory: (Note 1)	
Supplies	82,461
Prepaid Expenses	46,827
Noncurrent Assets:	
Bond Issuance Costs - Net (Note 1)	57,172
Capital Assets - Net (Note 4)	<u>9,441,346</u>
Total Assets	<u>12,172,902</u>
 <u>Liabilities</u>	
Accounts Payable	167,728
Interest Payable	18,517
Payroll Deductions and Withholdings	275,052
Salaries Payable	528,502
Deferred Revenue	1,495
Long-Term Liabilities (Note 6)	
Due within one year	578,877
Due in more than one year	<u>4,851,167</u>
Total Liabilities	<u>6,421,338</u>
 <u>Net Assets</u>	
Invested in Capital Assets, Net of Related Debt	4,766,021
Restricted For:	
Debt Retirement	355,722
Unrestricted	<u>629,821</u>
Total Net Assets	<u>\$ 5,751,564</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenue and Change in Net Assets Government Type Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Instruction	\$ 5,945,430	\$ 50,177	\$ 963,513	\$ (4,931,740)
Support Services	2,933,151	0	212,470	(2,720,681)
Food Services	539,265	224,782	245,350	(69,133)
Athletics	154,285	32,991	1,600	(119,694)
Transfers to Other Districts	3,425	0	0	(3,425)
Interest on Long-Term Debt	<u>276,641</u>	<u>0</u>	<u>0</u>	<u>(276,641)</u>
Total	<u>\$ 9,852,197</u>	<u>\$ 307,950</u>	<u>\$ 1,422,933</u>	<u>(8,121,314)</u>
General Revenue:				
Property Taxes, Levied for General Purposes				4,971,344
Property Taxes, Levied for Debt Purposes				688,224
State School Aid - Unrestricted				2,263,914
Investment Earnings				117,711
Miscellaneous				<u>92,410</u>
Total General Revenue				<u>8,133,603</u>
Change in net assets				12,289
Net assets - beginning				<u>5,739,275</u>
Net assets - ending				<u>\$ 5,751,564</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	<u>General Fund</u>	<u>Debt Retirement Fund</u> <u>1999 Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and Cash Equivalents (Note 2)	\$ 1,615,348	\$ 352,530	\$ 3,452	\$ 1,971,330
Receivables:				
Taxes	5,474	1,841	0	7,315
Accounts	1,672	0	2,497	4,169
Due from Other Governmental Units	562,282	0	0	562,282
Due from Other Funds (Note 3)	8,676	1,006	2,260	11,942
Inventory: (Note 1)				
Supplies	78,313	0	4,148	82,461
Prepaid Expenses	<u>46,827</u>	<u>0</u>	<u>0</u>	<u>46,827</u>
Total Assets	<u>\$ 2,318,592</u>	<u>\$ 355,377</u>	<u>\$ 12,357</u>	<u>\$ 2,686,326</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 167,728	\$ 0	\$ 0	\$ 167,728
Due to Other Funds (Note 3)	3,266	74	8,602	11,942
Payroll Deductions and Withholdings	275,052	0	0	275,052
Salaries Payable	528,502	0	0	528,502
Deferred Revenue (Note 7)	<u>5,474</u>	<u>1,841</u>	<u>1,495</u>	<u>8,810</u>
Total Liabilities	<u>980,022</u>	<u>1,915</u>	<u>10,097</u>	<u>992,034</u>
<u>Fund Equity</u>				
Fund Balances:				
Reserved:				
Debt Service	0	353,462	2,260	355,722
Inventories	78,313	0	0	78,313
Unreserved and Undesignated, Reported In:				
General Fund	<u>1,260,257</u>	<u>0</u>	<u>0</u>	<u>1,260,257</u>
Total Fund Equity	<u>1,338,570</u>	<u>353,462</u>	<u>2,260</u>	<u>1,694,292</u>
Total Liabilities and Fund Equity	<u>\$ 2,318,592</u>	<u>\$ 355,377</u>	<u>\$ 12,357</u>	<u>\$ 2,686,326</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2008

Total governmental fund balances		\$	1,694,292
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at the year end consist of:			
Capital Asset Cost	\$	14,876,112	
Capital Asset Accumulated Depreciation		<u>(5,434,766)</u>	
			9,441,346
Accrued interest on long-term liabilities			(18,517)
Other assets not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:			
Taxes Receivable			7,315
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Bonds Payable (net of deferred amounts on refunding)		(4,656,045)	
Capital Leases Payable		(763)	
Compensated Absences Payable		(414,204)	
Early Retirement Incentive Payable		<u>(301,860)</u>	
Total long-term liabilities			<u>(5,372,872)</u>
Total net assets - governmental activities		\$	<u>5,751,564</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	<u>General Fund</u>	<u>Debt Retirement Fund 1999 Bond</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenue</u>				
Local Sources	\$ 5,313,376	\$ 702,161	\$ 260,193	\$ 6,275,730
State Sources	2,762,338	0	24,311	2,786,649
Federal Sources	369,519	0	221,039	590,558
Interdistrict Sources	<u>224,029</u>	<u>0</u>	<u>0</u>	<u>224,029</u>
Total revenue	<u>8,669,262</u>	<u>702,161</u>	<u>505,543</u>	<u>9,876,966</u>
<u>Expenditures</u>				
Current:				
Instruction	5,682,633	0	0	5,682,633
Support Services	2,781,226	0	0	2,781,226
Food Services	0	0	511,663	511,663
Athletics	0	0	146,490	146,490
Outgoing Transfers to Other Districts	3,425	0	0	3,425
Capital Outlay	234,715	0	15,044	249,759
Debt Service:				
Principal Retirement	8,858	420,000	120,000	548,858
Interest and Fees on Long-Term Debt	349	45,437	180,282	226,068
Total expenditures	<u>8,711,206</u>	<u>465,437</u>	<u>973,479</u>	<u>10,150,122</u>
Excess of revenue over (under) expenditures	<u>(41,944)</u>	<u>236,724</u>	<u>(467,936)</u>	<u>(273,156)</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	0	0	467,936	467,936
Operating Transfers Out	<u>(251,767)</u>	<u>(216,169)</u>	<u>0</u>	<u>(467,936)</u>
Total other financing sources (uses)	<u>(251,767)</u>	<u>(216,169)</u>	<u>467,936</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures and other uses	(293,711)	20,555	0	(273,156)
Fund balances - beginning of year	<u>1,632,281</u>	<u>332,907</u>	<u>2,260</u>	<u>1,967,448</u>
Fund balances - end of year	<u>\$ 1,338,570</u>	<u>\$ 353,462</u>	<u>\$ 2,260</u>	<u>\$ 1,694,292</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Total net change in fund balances - governmental funds	\$	(273,156)
--	----	-----------

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their
estimated useful lives as depreciation expense.

Current year depreciation expense	\$ (330,193)	
Capital outlays reported in the governmental funds	<u>96,315</u>	(233,878)

Repayment of the debt principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the statement of net
assets. This is the amount of repayments reported as expenditures in the
governmental funds.

Bonds Payable	540,000	
Capital Leases Payable	<u>8,858</u>	548,858

Governmental funds report the effect of issuance costs and premiums when
debt is first issued, whereas these amounts are deferred and amortized in
the statement of activities. The net effect of these differences in the
treatment of general obligation bonds and related items is as follows:

Amortization of Deferred Amounts on Refunding		(32,056)
---	--	----------

Receivables not currently available are reported as revenue when collected
or when currently available in the fund financial statements but are
recognized as revenue when earned in the government-wide statements:

Net change in taxes receivable		(12,480)
--------------------------------	--	----------

Expenses are reported on the accrual method in the statement of activities,
and recorded as an expenditure when financial resources are used in the
governmental funds. The effect of the treatment of these activities are as
follows:

Interest	(18,517)	
Compensated Absences	(27,760)	
Early Retirement Incentives	<u>61,278</u>	
		<u>15,001</u>

Change in net assets of governmental activities	\$	<u><u>12,289</u></u>
---	----	----------------------

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
TRUST AND AGENCY FUNDS
June 30, 2008

	<u>Student Activity</u>
<u>ASSETS</u>	
Cash and Cash Equivalents (Note 2)	\$ <u>113,985</u>
<u>LIABILITIES</u>	
Due to Student Groups	\$ <u>113,985</u>

The accompanying notes to financial statements are an integral part of this statement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Alcona Community Schools (School District) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. The School District is considered to be a local government unit. The following is a summary of the significant accounting policies:

A. Reporting Entity

The School District operates under an elected School Board (seven members) and provides services to students in grades K-12. The Board is responsible for adopting and amending budgets and for administering the school programs in accordance with governing laws.

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District's reporting entity applies all relevant GASB pronouncements for determining the various governmental organizations to be included in the reporting entity. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Alcona Community Schools' Board of Education (Board) is the primary government which has oversight responsibility and control over all activities related to public school education in the area served by the Alcona Community Schools. The Board receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. As such, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

1999 Bond Fund – The Fund is used to account for the accumulated resources for, and the payment of, general long-term principal, interest and related costs.

The other governmental funds of the School District account for grants and other resources whose use is restricted for a particular purpose, and the accumulation of resources for, and the payment of debt.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The School District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amounts held for student and employee groups.

C. Basis of Presentation

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. Restricted assets are used first to fund appropriations before unrestricted assets are used.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Fund Financial Statements:

Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenue, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available in advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

E. Cash and Cash Equivalents

During the fiscal year ended June 30, 2008, investments included the Michigan Liquid Asset Fund (MILAF). MILAF is an investment pool managed by Cadre Consulting, which allows school districts within the State of Michigan to pool their funds for investment purposes. Investments in MILAF are valued at cost which equals market value.

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Due From Other Governmental Units

This represents amounts receivable from the State of Michigan and other governmental units for federal, state and local reimbursable programs.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

H. Inventory – Supplies

Inventory on government-wide financial statements is stated at cost and expensed when used.

Inventory in governmental funds consists of expendable supplies held for consumption. Inventory is stated at cost and recorded as an expenditure in the governmental fund types when purchased.

I. Bond Issuance Costs

On the government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles and Buses	8 years

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due from/to other funds". These amounts are eliminated in the governmental columns of the statement of net assets.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. In general, payments made within 60 days after year end are considered to have been made with current available financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that will be paid from governmental funds are recognized as a liability in the fund financial statements when they become due for payment.

M. Compensated Absences

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the School District's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. For the governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

O. Governmental Fund Balance Reserves

The School District reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure.

P. Property Taxes

The School District levies its property taxes on December 1, and various municipalities collect its property taxes and remit them to the School District through February. The delinquent real property taxes of the School District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The County sells tax notes, the proceeds of which have been used to pay the School District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

Q. Foundation Revenue

The State of Michigan has adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the School District. For the year ended June 30, 2008, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2007.

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation allowance is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October, 2007 - August, 2008. The local revenue is recognized as outlined in Note 1 Accounting for Property Taxes.

R. State Categorical Revenue

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/ expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/ expenses to the funds that initially paid for them are not presented on the financial statements.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2008.

U. Economic Dependency

The School District received approximately 28% of their revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

V. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

W. Budgetary Policies and Data

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds and an informational study for Capital Project Funds of school districts prior to the expenditure of monies in a fiscal year in accordance with GAAP.

Alcona Community Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ <u>1,971,330</u>	\$ <u>113,985</u>	\$ <u>2,085,315</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts)	\$ 1,114,486
Investments in Pooled Funds	<u>970,829</u>
Total	\$ <u>2,085,315</u>

As of June 30, 2008, the School District had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	\$ <u>970,829</u>	Daily

Interest Rate Risk

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district. As of June 30, 2008, the School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's, and the investment in the Huron Community Bank investment pool was unrated.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. Investments in U.S. Treasury securities and those other securities completely guaranteed by the Treasury as to payment of principal and interest may be purchased in any dollar amount or up to 100% of the available reserve.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$1,043,647 of the School District's bank balance of \$1,294,933 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The School District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the District's Investment policy which is in accordance with State law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the School District will do business.

Foreign Currency Risk

The School District is not authorized to invest in investments which have this type of risk.

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2008 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 74	1999 Bond Fund	\$ 74
General Fund	8,602	Food Service Fund	8,602
1999 Bond Fund	1,006	General Fund	1,006
2005 Refunding Bond Debt Retirement Fund	<u>2,260</u>	General Fund	<u>2,260</u>
Total	<u>\$ 11,942</u>	Total	<u>\$ 11,942</u>

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 01, 2007	Additions	Deletions	Balance June 30, 2008
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 144,185	\$ 0	\$ 0	\$ 144,185
Capital Assets Being Depreciated:				
Buildings and Improvements	12,938,104	19,960	0	12,958,064
Site Improvements	536,349	15,000	0	551,349
Furniture, Fixtures and Equipment	238,296	61,355	0	299,651
Vehicles and Buses	<u>922,863</u>	<u>0</u>	<u>0</u>	<u>922,863</u>
Subtotal	<u>14,635,612</u>	<u>96,315</u>	<u>0</u>	<u>14,731,927</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(4,026,450)	(248,466)	0	(4,274,916)
Site Improvements	(134,387)	(28,760)	0	(163,147)
Furniture, Fixtures and Equipment	(155,217)	(27,362)	0	(182,579)
Vehicles and Buses	<u>(788,519)</u>	<u>(25,605)</u>	<u>0</u>	<u>(814,124)</u>
Subtotal	<u>(5,104,573)</u>	<u>(330,193)</u>	<u>0</u>	<u>(5,434,766)</u>
Capital Assets Being Depreciated	<u>9,531,039</u>	<u>(233,878)</u>	<u>0</u>	<u>9,297,161</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 9,675,224</u>	<u>\$ (233,878)</u>	<u>\$ 0</u>	<u>\$ 9,441,346</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental Activities

Instruction	\$ 205,089
Support Services	101,180
Food Services	18,602
Athletics	<u>5,322</u>
	<u>\$ 330,193</u>

NOTE 5 - SHORT-TERM DEBT

The School District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit.

The School District did not enter into any short-term financing arrangements during the fiscal year ending June 30, 2008

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 6 - LONG-TERM LIABILITIES

A. Bonds Payable

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Obligation</u>
1999 School Building and Site Bonds:				
The bonds dated August 1, 1999 which bear interest at 4.8% are due serially each May 1 through 2016. Payments are made from the 1999 Bond Fund.				
	1999	\$ 465,000	\$ 23,715	\$ 488,715
2005 Refunding Bonds:				
The bonds dated April 26, 2005 which bear interest at 3% to 4.25% are due serially each May 1 through 2016. Payments are made from the 2005 Refunding Bond Debt Retirement Fund.				
	2005	<u>4,435,000</u>	<u>912,931</u>	<u>5,347,931</u>
Total Bonds Payable		<u>\$ 4,900,000</u>	<u>\$ 936,646</u>	<u>\$ 5,836,646</u>

B. Capital Leases

	<u>Date of Contract</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Obligation</u>
Kansas State Bank Copier Lease:				
The lease dated August 12, 2004 is due in monthly payments of \$767 over a period of 48 months. Payments are made from the General Fund.				
	2004	\$ <u>763</u>	\$ <u>4</u>	\$ <u>767</u>

The annual principal and interest requirements for long-term debt for the years after June 30, 2008 are as follows:

	<u>Government Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 510,763	\$ 198,488	\$ 709,251
2010	560,000	173,194	733,194
2011	580,000	153,594	733,594
2012	600,000	131,844	731,844
2013	625,000	108,594	733,594
2014 - 2016	<u>2,025,000</u>	<u>170,936</u>	<u>2,195,936</u>
Total	<u>\$ 4,900,763</u>	<u>\$ 936,650</u>	<u>\$ 5,837,413</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

C. Compensated Absences Payable

The School District has contracted obligations to compensate eligible employees for absences from work for sick leave. Eligible employees are allowed to accumulate sick leave and the amounts so accumulated are payable at retirement or resignation subject to contractual limitations based on years of service. Teachers may accumulate up to 180 days of sick leave of which 25% is payable upon retirement. Other employees are covered by similar agreements. The amount of accumulated sick pay liability for Alcona Community Schools was \$414,204 at June 30, 2008. The payment dates of compensated absences are undeterminable; therefore, all of the liability is considered long term.

D. Early Retirement Incentive Payable

The School District offers an early retirement incentive to certain teachers based on years of service and current wage scale payable over a five year period. The amount of retirement incentive liability for the School District at June 30, 2008 was \$301,860, of which \$92,002 was the estimated current portion.

E. Defeasance of Debt

On April 26, 2005, the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2010 and ending in 2016. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2008, \$4,480,000 of bonds outstanding are considered defeased.

F. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
<u>Governmental Activities</u>					
Bonds Payable	\$ 5,440,000	\$ 0	\$ (540,000)	\$ 4,900,000	\$ 510,000
Plus Deferred Premiums on Bonds	51,674	0	(5,859)	45,815	5,859
Less Deferred Amounts on Refunding	<u>(262,345)</u>	<u>0</u>	<u>29,747</u>	<u>(232,598)</u>	<u>(29,747)</u>
Total Bonds Payable, Net	5,229,329	0	(516,112)	4,713,217	486,112
Capital Leases	9,621	0	(8,858)	763	763
Compensated Absences	386,444	27,760 *	0	414,204	0
Early Retirement Incentive	<u>363,138</u>	<u>45,355</u>	<u>(106,633)</u>	<u>301,860</u>	<u>92,002</u>
Total Long-Term Liabilities	<u>\$ 5,988,532</u>	<u>\$ 73,115</u>	<u>\$ (631,603)</u>	<u>\$ 5,430,044</u>	<u>\$ 578,877</u>

*Represents net of additions and retirements for the year.

The interest expenditures on long-term obligations for the year were \$276,641.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 7 - DEFERRED REVENUE

Governmental funds defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unearned</u>
General Fund:	
Delinquent Personal Property Taxes	\$ 5,474
1999 Bond Fund:	
Delinquent Personal Property Taxes	1,841
Food Service Fund:	
Meal Cards	<u>1,495</u>
Total	<u>\$ 8,810</u>

NOTE 8 - OPERATING TRANSFERS

During the year ended June 30, 2008, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ 0	\$ 251,767
1999 Bond Fund	0	216,169
Non-major Governmental Funds	<u>467,936</u>	<u>0</u>
	<u>\$ 467,936</u>	<u>\$ 467,936</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted at the functional level.

During the year ended June 30, 2008, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund/Operating Transfers Out	\$ 249,113	\$ 251,767	\$ 2,654

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 10 - RETIREMENT PLANS

Defined Benefit Plan

The Alcona Community Schools contributes to the Michigan Public School Employee's Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Michigan Public School Employee's Retirement System. MPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Public Act 300 of 1980 of the State of Michigan, as amended, assigns the authority to establish and amend benefit provisions to the MPERS Board. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. The report may be obtained by writing to MPERS, 7150 Harris Drive, P.O. Box 30673, Lansing, Michigan 48909-8103.

Funding Policy

Effective January 1, 1987, employees who were MPERS members could have elected to contribute on a tax deferred basis to a Member Investment Plan (MIP). MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Employees first hired January 1, 1990 or later will automatically be included in the MIP and will contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. For a limited period ending January 1, 1993, an active basic plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment.

During the plan fiscal year 2007, employer contributions were 17.74% of covered compensation as school districts were responsible for the entire pension and health insurance contribution. After September 30, 2007, the contribution rate decreased to 16.72% of covered compensation. The contribution requirements of plan members and Alcona Community Schools are established and may be amended by the MPERS Board. The School District's contributions to MPERS for the years ending June 30, 2008, 2007 and 2006 were \$816,078, \$798,218 and \$735,987, respectively, equal to the required contributions for each year.

The MPERS also provides for death and disability benefits which are established by state statute. Under the MPERS Act, all retirees have the option of continuing health, dental and vision insurance coverage. All health care benefits under the MPERS are on a self-insured pay-as-you-go basis. Retirees electing these coverages pay a portion of the premium for this coverage from their monthly pension benefit.

Deferred Compensation Plans

The School District offers its employees participation in the Tax-Deferred Payments (TDP) program through MPERS. The program, available to all full-time employees who are members of the retirement system, permits them to defer a portion of their salary until future years for the purchase of additional years of service credit. Employees are eligible to voluntarily participate from the date of employment, however once an employee begins payments in the program, they must continue until completion of the purchase of the service credit or termination of employment from Alcona Community Schools. Payments into the program are vested once 10 years of service credit have been earned through the MPERS. Employee contributions to the TDP program totaled \$60,326 for the year ended June 30, 2008.

The School District also offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403(b). The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Employees are eligible to voluntarily participate from the date of employment and are vested immediately upon participation. Employee contributions to the Section 403(b) plan totaled \$153,651 for the year ended June 30, 2008. The assets of the plan are administered and held by various approved third party financial institutions.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2008

NOTE 11 - UNEMPLOYMENT COMPENSATION

The School District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the School District must reimburse the Employment Agency for all benefits charged against the School District. Accrued unemployment compensation was \$118 as of June 30, 2008.

NOTE 12 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property, casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The School District has not been informed of any special assessments being required.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 13 - GOVERNMENTAL REGULATION

Substantially all of the School District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal and state requirements.

NOTE 14 - CONTINGENCIES AND COMMITMENTS

The School District participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended June 30, 2008, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Local Sources	\$ 5,284,001	\$ 5,440,517	\$ 5,313,376	\$ (127,141)
State Sources	2,403,669	2,730,818	2,762,338	31,520
Federal Sources	312,100	373,112	369,519	(3,593)
Interdistrict Sources	<u>290,000</u>	<u>260,461</u>	<u>224,029</u>	<u>(36,432)</u>
Total revenue	<u>8,289,770</u>	<u>8,804,908</u>	<u>8,669,262</u>	<u>(135,646)</u>
<u>Expenditures</u>				
Current:				
Instruction	5,632,945	5,746,673	5,682,633	64,040
Support Services	2,670,772	2,963,270	2,781,226	182,044
Outgoing Transfers to Other Districts	4,000	4,000	3,425	575
Capital Outlay	196,000	242,329	234,715	7,614
Debt Service:				
Principal Retirement	8,948	8,948	8,858	90
Interest and Fees on Long-Term Debt	<u>352</u>	<u>352</u>	<u>349</u>	<u>3</u>
Total expenditures	<u>8,513,017</u>	<u>8,965,572</u>	<u>8,711,206</u>	<u>254,366</u>
Excess of revenue over (under) expenditures	(223,247)	(160,664)	(41,944)	118,720
<u>Other Financing Uses</u>				
Operating Transfers Out	<u>(248,900)</u>	<u>(249,113)</u>	<u>(251,767)</u>	<u>(2,654)</u>
Excess of revenue over (under) expenditures and other uses	(472,147)	(409,777)	(293,711)	116,066
Fund balances - beginning of year	<u>1,632,281</u>	<u>1,632,281</u>	<u>1,632,281</u>	<u>0</u>
Fund balances - end of year	<u>\$ 1,160,134</u>	<u>\$ 1,222,504</u>	<u>\$ 1,338,570</u>	<u>\$ 116,066</u>

OTHER INFORMATION

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Retirement Funds</u>		<u>Total Other Governmental Funds</u>
	<u>Food Service</u>	<u>Athletic Fund</u>	<u>2005 Refunding Bond</u>	<u>1998 Energy Bond</u>	
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 3,452	\$ 0	\$ 0	\$ 0	\$ 3,452
Receivables:					
Accounts	2,497	0	0	0	2,497
Due from Other Funds	0	0	2,260	0	2,260
Inventory:					
Supplies	<u>4,148</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,148</u>
Total Assets	<u>\$ 10,097</u>	<u>\$ 0</u>	<u>\$ 2,260</u>	<u>\$ 0</u>	<u>\$ 12,357</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Due to Other Funds	\$ 8,602	\$ 0	\$ 0	\$ 0	\$ 8,602
Deferred Revenue	<u>1,495</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,495</u>
Total Liabilities	<u>10,097</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,097</u>
<u>Fund Equity</u>					
Fund Balances:					
Reserved:					
Debt Service	0	0	2,260	0	2,260
Unreserved and Undesignated,					
Reported In:					
Special Revenue Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Fund Equity	<u>0</u>	<u>0</u>	<u>2,260</u>	<u>0</u>	<u>2,260</u>
Total Liabilities and Fund Equity	<u>\$ 10,097</u>	<u>\$ 0</u>	<u>\$ 2,260</u>	<u>\$ 0</u>	<u>\$ 12,357</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	<u>Special Revenue Funds</u>		<u>Debt Retirement Funds</u>		<u>Total Other Governmental Funds</u>
	<u>Food Service</u>	<u>Athletic Fund</u>	<u>2005 Refunding Bond</u>	<u>1998 Energy Bond</u>	
<u>Revenue</u>					
Local Sources	\$ 225,602	\$ 34,591	\$ 0	\$ 0	\$ 260,193
State Sources	24,311	0	0	0	24,311
Federal Sources	221,039	0	0	0	221,039
Total revenue	<u>470,952</u>	<u>34,591</u>	<u>0</u>	<u>0</u>	<u>505,543</u>
<u>Expenditures</u>					
Current:					
Food Services	511,663	0	0	0	511,663
Athletics	0	146,490	0	0	146,490
Capital Outlay	12,500	2,544	0	0	15,044
Debt Service:					
Principal Retirement	0	0	40,000	80,000	120,000
Interest and Fees on Long-Term Debt	0	0	176,169	4,113	180,282
Total expenditures	<u>524,163</u>	<u>149,034</u>	<u>216,169</u>	<u>84,113</u>	<u>973,479</u>
Excess of revenue over (under) expenditures	(53,211)	(114,443)	(216,169)	(84,113)	(467,936)
<u>Other Financing Sources</u>					
Operating Transfers In	<u>53,211</u>	<u>114,443</u>	<u>216,169</u>	<u>84,113</u>	<u>467,936</u>
Excess of revenue and other sources over (under) expenditures	0	0	0	0	0
Fund balances - beginning of year	<u>0</u>	<u>0</u>	<u>2,260</u>	<u>0</u>	<u>2,260</u>
Fund balances - end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,260</u>	<u>\$ 0</u>	<u>\$ 2,260</u>

INDIVIDUAL FUND SCHEDULES

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
DETAILS OF REVENUE COMPARED TO BUDGET
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Local Sources</u>			
Current Property Taxes	\$ 4,974,887	\$ 4,983,824	\$ 4,811,756
Interest on Investments	113,500	102,954	119,727
Other Local Sources	<u>352,130</u>	<u>226,598</u>	<u>350,925</u>
	<u>5,440,517</u>	<u>5,313,376</u>	<u>5,282,408</u>
<u>State Sources</u>			
State Aid Foundation Allowance	2,657,070	2,688,635	2,834,529
Math/Science	13,329	13,329	0
Preschool Program/Early Childhood Education	34,000	34,000	29,700
Vocational Education	22,170	22,125	22,137
Strong Families/Safe Children	<u>4,249</u>	<u>4,249</u>	<u>23,439</u>
	<u>2,730,818</u>	<u>2,762,338</u>	<u>2,909,805</u>
<u>Federal Sources</u>			
Drug Free Schools	5,634	5,634	5,719
ECIA Title I	217,126	217,126	231,252
ECIA Title II- Improving Teacher Quality	68,537	68,537	69,172
Title II Part D - Education Technology	2,041	2,041	2,374
Title II - Perkins Grant	3,800	3,773	3,810
Comprehensive School Reform	0	0	30,785
Title V	3,546	3,546	3,643
Head Start	40,000	40,000	40,000
History Grant	0	0	2,000
Other Federal Revenues	<u>32,428</u>	<u>28,862</u>	<u>32,450</u>
	<u>373,112</u>	<u>369,519</u>	<u>421,205</u>
<u>Interdistrict Sources</u>			
Special Education and Other Programs	<u>260,461</u>	<u>224,029</u>	<u>310,186</u>
Total Revenue	<u>\$ 8,804,908</u>	<u>\$ 8,669,262</u>	<u>\$ 8,923,604</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Instruction</u>			
Basic Programs:			
Elementary			
Salaries	\$ 1,312,997	\$ 1,321,236	\$ 1,295,304
Employee Benefits	625,871	638,741	630,023
Purchased Services	26,303	24,757	13,364
Supplies, Materials and Other	79,495	71,213	57,913
	<u>2,044,666</u>	<u>2,055,947</u>	<u>1,996,604</u>
Junior High School			
Salaries	612,136	596,521	653,960
Employee Benefits	327,522	300,482	345,659
Purchased Services	4,550	4,849	46,807
Supplies, Materials and Other	22,437	21,852	7,876
	<u>966,645</u>	<u>923,704</u>	<u>1,054,302</u>
High School			
Salaries	1,036,214	1,024,172	880,888
Employee Benefits	524,718	521,994	480,338
Purchased Services	10,000	4,875	3,582
Supplies, Materials and Other	45,000	35,972	58,645
	<u>1,615,932</u>	<u>1,587,013</u>	<u>1,423,453</u>
Preschool			
Purchased Services	34,000	34,000	29,700
	<u>34,000</u>	<u>34,000</u>	<u>29,700</u>
Total Basic Programs	<u>4,661,243</u>	<u>4,600,664</u>	<u>4,504,059</u>
Added Needs:			
Special Education			
Salaries	426,000	433,739	456,882
Employee Benefits	261,281	252,118	254,858
Purchased Services	35,000	35,633	52,568
Supplies, Materials and Other	6,500	5,677	2,551
	<u>728,781</u>	<u>727,167</u>	<u>766,859</u>
Compensatory Education			
Salaries	153,072	153,072	142,035
Employee Benefits	64,054	64,054	72,904
Purchased Services	0	0	1,000
Supplies, Materials and Other	0	0	1,037
	<u>217,126</u>	<u>217,126</u>	<u>216,976</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Instruction</u> (Continued)			
Added Needs: (Continued)			
Vocational Education			
Salaries	\$ 79,477	\$ 79,032	\$ 74,252
Employee Benefits	35,646	34,880	37,704
Purchased Services	10,100	9,855	856
Supplies, Materials and Other	14,300	13,909	11,516
	<u>139,523</u>	<u>137,676</u>	<u>124,328</u>
Total Added Needs	<u>1,085,430</u>	<u>1,081,969</u>	<u>1,108,163</u>
Total Instruction	<u>5,746,673</u>	<u>5,682,633</u>	<u>5,612,222</u>
<u>Support Services</u>			
Pupil Services:			
Guidance Services			
Salaries	73,200	73,165	87,586
Employee Benefits	34,500	32,669	35,448
Supplies, Materials and Other	1,000	731	1,820
	<u>108,700</u>	<u>106,565</u>	<u>124,854</u>
Health Services			
Salaries	3,500	3,500	3,600
Employee Benefits	46	46	43
Purchased Services	259,500	192,902	228,466
Supplies, Materials and Other	0	0	1
	<u>263,046</u>	<u>196,448</u>	<u>232,110</u>
Total Pupil Services	<u>371,746</u>	<u>303,013</u>	<u>356,964</u>
Instructional Staff:			
Intructional Improvement			
Purchased Services	<u>15,000</u>	<u>10,046</u>	<u>24,000</u>
Library Services			
Salaries	21,455	20,919	19,261
Employee Benefits	25,387	16,909	12,059
Purchased Services	1,000	0	0
Supplies, Materials and Other	4,000	3,336	3,381
	<u>51,842</u>	<u>41,164</u>	<u>34,701</u>
Total Instructional Staff	<u>66,842</u>	<u>51,210</u>	<u>58,701</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Support Services</u> (Continued)			
General Administration:			
Board of Education			
Salaries	\$ 5,000	\$ 3,963	\$ 4,844
Employee Benefits	0	864	0
Purchased Services	<u>41,000</u>	<u>33,194</u>	<u>35,348</u>
	<u>46,000</u>	<u>38,021</u>	<u>40,192</u>
Executive Administration			
Salaries	112,500	112,867	115,770
Employee Benefits	48,100	41,107	47,641
Purchased Services	<u>36,600</u>	<u>35,210</u>	<u>25,910</u>
	<u>197,200</u>	<u>189,184</u>	<u>189,321</u>
Total General Administration	<u>243,200</u>	<u>227,205</u>	<u>229,513</u>
School Administration:			
Office of the Principal			
Salaries	345,290	341,503	338,392
Employee Benefits	181,893	171,702	173,191
Supplies, Materials and Other	<u>16,589</u>	<u>19,341</u>	<u>13,469</u>
	<u>543,772</u>	<u>532,546</u>	<u>525,052</u>
Business:			
Fiscal Services			
Salaries	98,200	98,870	97,610
Employee Benefits	42,550	41,249	41,033
Purchased Services	41,000	40,894	39,085
Supplies, Materials and Other	<u>16,000</u>	<u>15,983</u>	<u>9,514</u>
	<u>197,750</u>	<u>196,996</u>	<u>187,242</u>
Staff/Personnel Services			
Salaries	2,800	2,800	2,800
Employee Benefits	34	17	10
Supplies, Materials and Other	<u>2,817</u>	<u>2,817</u>	<u>2,909</u>
	<u>5,651</u>	<u>5,634</u>	<u>5,719</u>
Total Business	<u>203,401</u>	<u>202,630</u>	<u>192,961</u>
Operations and Maintenance:			
Salaries	261,070	257,174	232,996
Employee Benefits	145,912	129,972	120,265
Purchased Services	109,000	104,430	106,155
Supplies, Materials and Other	<u>244,950</u>	<u>244,890</u>	<u>235,630</u>
	<u>760,932</u>	<u>736,466</u>	<u>695,046</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended June 30, 2008
With Comparative Totals for the Year Ended June 30, 2007

	2008 Amended Budget	2008 Actual	2007 Actual
<u>Support Services</u> (Continued)			
Transportation:			
Salaries	\$ 277,535	\$ 274,084	\$ 275,044
Employee Benefits	188,190	183,087	186,231
Purchased Services	11,100	11,092	9,150
Supplies, Materials and Other	<u>133,900</u>	<u>127,572</u>	<u>100,101</u>
	<u>610,725</u>	<u>595,835</u>	<u>570,526</u>
Central Services:			
Technology			
Purchased Services	<u>162,652</u>	<u>132,321</u>	<u>123,941</u>
Total Support Services	<u>2,963,270</u>	<u>2,781,226</u>	<u>2,752,704</u>
<u>Outgoing Transfers to Other Districts</u>			
Drivers Education:			
Alpena Public Schools	<u>4,000</u>	<u>3,425</u>	<u>3,765</u>
<u>Capital Outlay</u>			
Instruction	124,870	115,327	21,209
Support Services	<u>117,459</u>	<u>119,388</u>	<u>121,083</u>
Total Capital Outlay	<u>242,329</u>	<u>234,715</u>	<u>142,292</u>
<u>Debt Service</u>			
Principal Retirement	8,948	8,858	8,325
Interest and Fees on Long-Term Debt	<u>352</u>	<u>349</u>	<u>879</u>
Total Debt Service	<u>9,300</u>	<u>9,207</u>	<u>9,204</u>
<u>Operating Transfers Out</u>			
Athletic Fund	135,000	114,443	96,427
Food Service Fund	30,000	53,211	53,208
Debt Service Fund	<u>84,113</u>	<u>84,113</u>	<u>82,556</u>
Total Transfers Out	<u>249,113</u>	<u>251,767</u>	<u>232,191</u>
Total Expenditures and Transfers	<u>\$ 9,214,685</u>	<u>\$ 8,962,973</u>	<u>\$ 8,752,378</u>



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Ibraman, CPA
Kyle E. Troyer, CPA
Herman A. Bertuleit

October 23, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Alcona Community Schools
Alcona County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alcona Community Schools, Alcona County, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Alcona Community Schools' basic financial statements and have issued our report thereon dated October 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Alcona Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alcona Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Alcona Community Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Alcona Community Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Alcona Community Schools' financial statements that is more than inconsequential will not be prevented or detected by Alcona Community Schools' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Alcona Community Schools' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alcona Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Education
Alcona Community Schools
October 23, 2008
Page Two

We noted certain matters that we have reported to management of Alcona Community Schools in a separate letter dated October 23, 2008.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunth & Co., P.C.



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Braman, CPA
Kyle E. Troyer, CPA
Herman A. Bertulci

October 23, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Alcona Community Schools
Alcona County, Michigan

Compliance

We have audited the compliance of Alcona Community Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Alcona Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Alcona Community Schools' management. Our responsibility is to express an opinion on Alcona Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Alcona Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Alcona Community Schools' compliance with those requirements.

As described in item 08-1 and 08-2 in the accompanying schedule of findings and questioned costs, Alcona Community Schools did not comply with requirements regarding cash management that are applicable to the Title I Program or the requirements regarding eligibility that are applicable to the Nutrition Cluster Program. Compliance with such requirements is necessary, in our opinion, for Alcona Community Schools to comply with the requirements of those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Alcona Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Alcona Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Alcona Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Alcona Community Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Alcona Community Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Alcona Community Schools' responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alcona Community Schools as of and for the year ended June 30, 2008, and have issued our report thereon dated October 23, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Alcona Community Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, the Michigan Department of Education, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gratch & Co., P.C.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2008

Findings - Financial Statements Audit

07-1

Internal Controls

General Ledger Activity

During our audit fieldwork, we noted various improper postings of receipts and disbursements and inconsistent treatment of revenue and expense transactions in the debt retirement funds. We also noted disbursement activity in the debt retirement funds not posted to the general ledger that had cleared the bank.

Current Status:

During the current year audit, no significant improper postings of receipts and disbursements were noted. In addition, all debt retirement fund disbursements were posted to the general ledger. We believe that management has implemented adequate procedures to correct this situation and would identify any material misstatements to the financial statements.

07-2

Internal Controls

Financial Statement Preparation

Alcona Community Schools have individuals on staff to review the financial report to ensure it is accurate, and the financial information reflects the recording of the proposed entries. However, the individuals do not review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles.

Current Status:

Based on the current year evaluation of management, it was determined that the preparation of the financial statements is no longer a significant deficiency. We believe that management has adequate procedures in place that would identify any material misstatements to the financial statements.

Findings and Questioned Costs - Major Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award program audit for the year ending June 30, 2007.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

Summary of Auditors' Results

- (1) The auditors' report expresses unqualified opinions on the financial statements of Alcona Community Schools.
- (2) No significant deficiencies relating to the audit of the financial statements is reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of Alcona Community Schools, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) Two significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for Alcona Community Schools expresses a qualified opinion.
- (6) The auditors' report disclosed two audit findings relative to the major federal award programs for Alcona Community Schools.
- (7) The programs tested as major programs included: Title I, CFDA #84.010, and the School Nutrition Cluster, CFDA #10.553 and #10.555.
- (8) The threshold used for distinguishing between Type A and B programs was \$300,000.
- (9) Alcona Community Schools did not qualify as a low-risk auditee.

Findings – Financial Statements Audit

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards for the year ending June 30, 2008.

Findings and Questioned Costs – Major Federal Award Programs Audit

08-1 Title I – Cash Management

Criteria: Michigan Department of Education's 2007/2008 Audit Manual requires that all monies are not requested for reimbursement until three days of actual cash disbursement.

Condition: The School District requested reimbursement for the summer accrued payroll more than three days prior to actual cash disbursement.

Questioned Costs: None

Context: The payroll expenses had been incurred but not paid out due to the Teachers selecting a 26 pay contract.

Cause/Effect: The Business Manager believed that because the expenses were incurred, that it was acceptable to request reimbursement more than three days prior to actual cash disbursement.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

Recommendation: We recommend that management either begin requesting reimbursement for payroll expenses after the checks have been disbursed or not more than three days prior to the disbursement of those checks.

Views of responsible officials and planned corrective action: Alcona Community Schools plans to have the Business Manager wait until three days prior to the last payroll in August to request the final summer accrued payroll reimbursement.

08-2 Nutrition Cluster – Eligibility

Criteria: Office of Management and Budget Circular A-133 states that a child's eligibility for free or reduced price meals under the Child Nutrition Cluster program must be established by the submission of an annual application or be based on the child's household receiving benefits under the Food Stamp Program.

Condition: Five students were being claimed for reimbursement that did not have an application on file and were not part of households receiving benefits under the Food Stamp Program.

Questioned Costs: \$959

Context: Every month, the food service software printed out meals served reports used for federal reimbursement. Included in this listing each month were all the meals served to five students that did not have an application on file and were not part of households receiving benefits under the Food Stamp Program.

Cause/Effect: The Business Manager incorrectly entered in a free or reduced status into the food service software for five students.

Recommendation: We recommend that management establish procedures to verify that the status of all students is entered into the food service software correctly.

Views of responsible officials and planned corrective action: Alcona Community Schools plans to implement verification procedures to ensure that the status entered into the food service software system is correct both at the beginning of the school year as well as any time changes are made.

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

<u>Federal Grantor or Pass Through Grantor Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2007</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2008</u>
<u>U.S. Department of Agriculture</u>							
Child Nutrition Cluster:							
Passed through Michigan Department of Education:							
National School Breakfast Program:	10.553						
071970 Breakfast 2006/2007		\$ 37,298	\$ 33,788	\$ 0	\$ 3,510	\$ 3,510	\$ 0
081970 Breakfast 2007/2008		37,827	0	0	37,827	37,827	0
		<u>75,125</u>	<u>33,788</u>	<u>0</u>	<u>41,337</u>	<u>41,337</u>	<u>0</u>
Passed through Michigan Department of Education:							
National School Lunch Program:	10.555						
071950 Section 4 2006/2007		25,645	22,805	0	2,840	2,840	0
081950 Section 4 2007/2008		23,201	0	0	23,201	23,201	0
071960 Section 11 2006/2007		118,983	105,260	0	13,723	13,723	0
081960 Section 11 2007/2008		112,038	0	0	112,038	112,038	0
		<u>279,867</u>	<u>128,065</u>	<u>0</u>	<u>151,802</u>	<u>151,802</u>	<u>0</u>
Total Child Nutrition Cluster		<u>354,992</u>	<u>161,853</u>	<u>0</u>	<u>193,139</u>	<u>193,139</u>	<u>0</u>
Passed through Michigan Department of Education:							
Food Distribution for National Lunch or Breakfast Programs:	10.550						
Entitlement Commodities		26,445	0	0	26,445	26,445	0
Bonus Commodities		1,455	0	0	1,455	1,455	0
		<u>27,900</u>	<u>0</u>	<u>0</u>	<u>27,900</u>	<u>27,900</u>	<u>0</u>
Passed through Alcona County:	10.665						
Schools and Roads Grants to State		<u>28,862</u>	<u>0</u>	<u>0</u>	<u>28,862</u>	<u>28,862</u>	<u>0</u>
Total U.S. Department of Agriculture		<u>411,754</u>	<u>161,853</u>	<u>0</u>	<u>249,901</u>	<u>249,901</u>	<u>0</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Federal Grantor or Pass Through Grantor Program Title/Grantor's Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue July 1, 2007	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2008
<u>U.S. Department of Education</u>							
Passed through Michigan Department of Education:							
071530 0607 Title I - Part A Imp Basic Programs	84.010	\$ 231,252	\$ 231,252	\$ 51,252	\$ 0	\$ 51,252	\$ 0
081530 0708 Title I - Part A Imp Basic Programs		<u>217,126</u>	<u>0</u>	<u>0</u>	<u>217,126</u>	<u>217,126</u>	<u>0</u>
		<u>448,378</u>	<u>231,252</u>	<u>51,252</u>	<u>217,126</u>	<u>268,378</u>	<u>0</u>
Passed through Alpena Schools:							
Perkins Grant:	84.048	<u>3,773</u>	<u>0</u>	<u>0</u>	<u>3,773</u>	<u>3,773</u>	<u>0</u>
Passed through Michigan Department of Education:							
072860 0607 Safe and Drug Free Schools	84.186	5,719	5,719	5,719	0	5,719	0
082860 0708 Safe and Drug Free Schools		<u>5,634</u>	<u>0</u>	<u>0</u>	<u>5,634</u>	<u>5,634</u>	<u>0</u>
		<u>11,353</u>	<u>5,719</u>	<u>5,719</u>	<u>5,634</u>	<u>11,353</u>	<u>0</u>
Passed through Michigan Department of Education:							
Title V LEA Allocation:							
080250 0708 Title V part A Innovative	84.298	<u>3,546</u>	<u>0</u>	<u>0</u>	<u>3,546</u>	<u>3,546</u>	<u>0</u>
Passed through Michigan Department of Education:							
074290 0607 Title II Part D Ed Tech	84.318	2,374	2,374	1,074	0	1,074	0
084290 0708 Title II Part D Ed Tech		<u>2,041</u>	<u>0</u>	<u>0</u>	<u>2,041</u>	<u>2,041</u>	<u>0</u>
		<u>4,415</u>	<u>2,374</u>	<u>1,074</u>	<u>2,041</u>	<u>3,115</u>	<u>0</u>
Passed through Michigan Department of Education:							
070520 0607 Title II Part A - Improving Teacher Quality	84.367	69,172	69,172	37,172	0	37,172	0
080520 0708 Title II Part A - Improving Teacher Quality		<u>68,537</u>	<u>0</u>	<u>0</u>	<u>68,537</u>	<u>68,537</u>	<u>0</u>
		<u>137,709</u>	<u>69,172</u>	<u>37,172</u>	<u>68,537</u>	<u>105,709</u>	<u>0</u>
Total U.S. Department of Education		<u>609,174</u>	<u>308,517</u>	<u>95,217</u>	<u>300,657</u>	<u>395,874</u>	<u>0</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Federal Grantor or Pass Through Grantor <u>Program Title/Grantor's Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue July 1, 2007</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue June 30, 2008</u>
<u>U.S. Department of Health and Human Services</u>							
Passed through Northeast Michigan Community Service Agency:							
Head Start	93.600	\$ 40,000	\$ 0	\$ 0	\$ 40,000	\$ 40,000	\$ 0
Total Federal Awards		<u>\$ 1,060,928</u>	<u>\$ 470,370</u>	<u>\$ 95,217</u>	<u>\$ 590,558</u>	<u>\$ 685,775</u>	<u>\$ 0</u>

ALCONA COMMUNITY SCHOOLS
Alcona County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the District's federal awards and does not present transactions that would be included in financial statements of the District presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. Expenditures on this schedule reconcile with amounts reported in the financial statements and the financial reports submitted to the Michigan Department of Education.
3. The amounts reported on the R7120, Grants Section Auditors' Report reconcile with this schedule.
4. The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with this schedule for USDA donated food commodities and are reported in the Cash Receipts column.
5. Expenditures include spoilage or pilferage.
6. Reconciliation to financial statements:

General Fund	\$ 369,519
Special Revenue Funds:	
Food Service Fund	<u>221,039</u>
	<u>\$ 590,558</u>



Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA
Gerald D. Gracik Jr., CPA
James J. Gracik, CPA
Donald W. Brannan, CPA
Kyle E. Troyer, CPA

Herman A. Bertuleit

October 23, 2008

Management and the Board of Education
Alcona Community Schools
Alcona County, Michigan

We have conducted the audit of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Alcona Community Schools as of and for the year ended June 30, 2008 and have issued our report dated October 23, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I. Auditor's Communication of Significant Matters with Those Charged with Governance

II. Management Comments

We discussed these matters with various personnel in the School District during the audit and met with management on October 23, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, others within the School District and the Michigan Department of Education and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Stephenson, Gracik & Co., P.C.

Appendix 1

Communication to Those Charged with Governance

Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated May 20, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Alcona Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Alcona Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Alcona Community Schools' compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Alcona Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Alcona Community Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated May 20, 2008.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

We encountered no difficulties during the audit.

Appendix 1

Communication to Those Charged with Governance

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management. A summary of unadjusted audit differences was provided to management on October 23, 2008.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Appendix II

Management Comments

In planning and performing our audit of the financial statements of Alcona Community Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Alcona Community Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alcona Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Alcona Community Schools' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified no deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

We have noted various items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of Alcona Community Schools' financial statements. However, if at any point in the audit we as auditors are part of Alcona Community Schools' control system for producing reliable financial statements, auditing standards indicate that the District has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We believe that management is capable of preparing the financial statements portion of the report; however, we recommend that management look into purchasing the 2005 Governmental Accounting, Auditing and Financial Reporting – Using the GASB 34 Model (commonly known as the "Blue Book"), to help train and assist management with the disclosures required for the financial statements. This guide is offered through the Government Finance Officers Association website at www.gfoa.org.

ACCOUNTING RECORDS

During the audit, adjustments were required to balance transfer accounts and adjust accrual accounts to actual year end balances. However, there were significantly fewer adjustments needed in the current year than in previous years. We commend management on their progress in this area, and recommend that management continue to strive towards no adjusting journal entries being needed.

Appendix II Management Comments

CASH RECEIPTS - ATHLETICS

Currently, procedures are not in place to ensure the completeness of monies collected at various sporting events. We recommend that management implement procedures to help safeguard the cash receipts and ensure their completeness. For example, when spectators pay for admission they could receive a ticket from the gate worker. The worker would then complete a gate receipt report when the event ends, detailing the breakdown of monies collected and listing the ending ticket number. This summary would then be used by management to reconcile the total tickets sold to the total money collected and deposited.

SEGREGATION OF DUTIES

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Although the size of the District's staff prohibits complete adherence to this concept, we believe that implementing the following practice could greatly improve existing internal control without impairing efficiency. Currently the Payroll Clerk and the Business Manager have complete access to all functions in the payroll system. We recommend that controls be placed in the payroll software to limit the access so that only the Business Manager has access to the demographics portion of the software.

Another area of concern relating to segregation of duties is that of the Food Service cash receipts. Currently, the Business Manager collects and reconciles the cash received each day, deposits the cash and completes the monthly bank reconciliation. We recommend that another member of the accounting staff begin receiving copies of the receipts that are given to the Business Manager each day. This person will then review the reconciled bank statement each month and match the deposits to the daily receipt totals.

NUTRITION CLUSTER - ELIGIBILITY

Office of Management and Budget Circular A-133 Compliance Supplement states that a child's eligibility for free or reduced price meals under the Child Nutrition Cluster program may be established by the submission of an annual application or statement which furnishes such information as family income and family size or be based on the child's household receiving benefits under the Food Stamp Program. During our audit testing, we found five students who were being claimed for federal reimbursement as either free or reduced students, where no application was available and the students were not included on the State's listing of households receiving benefits under the Food Stamp Program. Through discussions with the Business Manager, it is believed that these errors were due to simply typing the wrong status code for the students when manually entering the students into the food service software. We recommend that management establish procedures to verify that the status of all students is entered correctly into the system every time changes are made.

TITLE I – CASH MANAGEMENT

The Michigan Department of Education's 2007/2008 Auditing Manual requires that all monies are not requested until three days of the actual disbursement of those funds. During our audit testing, we found that the accrued payroll amounts for teachers to be paid out in July and August 2008 were requested in total on June 20, 2008. We recommend that management establish procedures to only request reimbursement for Summer payroll amounts after they have been disbursed or within three days of the pay date.

Appendix II
Management Comments

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Insure that all receipts and disbursements are entered into the general ledger.	X			
Financial Statement Preparation			X	